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SUBJ: SUSHKOV INTERVIEW ON COMPENSATION PROJECTS AND "NEW FORMS"
OF COOPERATION

1. SUMMARY. IN INTERVIEW PUBLISHED INFEBRUARY ISSUE OF "FOREIGN
TRADE," DEPUTY MINISTER OF FOREIGN TRADE V.N. SUSHKOV DISCUSSES
SOVIET EXPERIENCE TO DATE WITH LARGE-SCALE COMPENSATION PROJECTS
AND FUTURE PLANS. SUSHKOV ALSO MENTIONS POSSIBILITY OF "NEW FORMS
OF COOPERATION" BASED ON COMPENSATION PRINCIPLE, A POINT WHICH BREZHNEV
ALSO TOUCHED
ON IN HIS FEBRUARY 24 PARTY CONGRESS ADDRESS. ALTHOUGH SUSHKOV
MAKES FAMILIAR POINT THAT U.S. FIRMS HAVE LOST LARGE CONTRACTS AS
RESULT OF TRADE LEGISLATION AND EX-IM BANK LEGISLATION, HIS OVER-
ALL TREATMENT OF PROSPECTS FOR US-SOVIET ECONOMIC COOPERATION IS
SURPRISINGLY FAVORABLE. END SUMMARY

2. IN HIS REVIEW OF COMPENSATION PROJECTS, SUSHKOV TOUCHES ON
MOST OF MAJOR AGREEMENTS CONCLUDED TO DATE.
INTERESTINGLY, HE INCLUDES KURSK METALLURGICAL PLANT IN HIS LIST-
ING OF COMPENSATION PROJECTS, WHICH COMMOFF UNDERSTANDS FROM FRG
EMBASSY IS NOT STRICTLY SPEAKING CORRECT. ACCORDING TO GERMANS,
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KORF HAS AGREED TO BUY CERTAIN QUANTITY OF IRON PELLETS PRODUCED

IN DIRECT-REDUCATION PLANT, BUT HIS IS NOT EXPECTED TO COVER FULL COSTS OF THAT PART OF KURSK PROJECT. SUSHKOV ALSO NOTES THAT REPAYMENT OF CREDITS PROVIDED BY FOREIGN COUNTRIES FOR COMPENSATION PROJECTS TAKES FROM 20-30 PERCENT OF PRODUCTION OF PLANTS DURING REPAYMENT PERIOD.

3. AS REGARDS U.S., SUSHKOV MENTIONS VARIOUS CONTRACTS CONCLUDED THUS FAR INVOLVING PARTICIPATION OF U.S. EX-IM BANK AND OBSERVES THAT ALL AGREEMENTS ARE BEING SUCCESSFULLY IMPLEMENTED. HE NOTES THAT DURING 1976-80 PERIOD, GOODS MOVING UNDER COMPENSATION PROJECTS WILL ACCOUNT FOR ABOUT 38 PERCENT OF TOTAL US-SOVIET TRADE, ACCORDING TO SOVIET PROJECTIONS, AND HE ADDS THAT DESPITE PROBLEMS CAUSED BY U.S. LEGISLATION, COMPENSATION DEALS COULD GRADUALLY COME TO PLAY EVEN MORE IMPORTANT ROLE IN US-SOVIET TRADE. AS HAVE OTHER SOVIET OFFICIALS, SUSHKOV MENTIONS VARIOUS CONTRACTS WHICH HAVE GONE TO WESTERN EUROPEAN AND JAPANESE FIRMS AS CONSEQUENCE OF U.S. LEGISLATION, AND HE CLAIMS THAT SOVIET HAD ORIGINALLY PLANNED TO ORDER FROM U.S. FIRMS TWO POLYETHYLENE PLANTS AND FOUR AMMONIA PLANTS RECENTLY PURCHASED IN WESTERN EUROPE AND JAPAN.

4. LOOKING AHEAD, SUSHKOV STATES THAT DISCUSSIONS ARE UNDERWAY WITH U.S. FIRMS AND BANKS ON SEVERAL MAJOR PROJECTS IN CHEMICAL AND AUTOMOBILE INDUSTRIES AND ON GEOPHYSICAL RESEARCH IN YAKUTIA AND OFF SAKHALIN, HE ALSO NOTES THAT SOVIETS ARE CONSIDERING PROPOSALS ADVANCED BY U.S. FIRMS BASED ON "NEW TYPES OF COOPERATION." AS DESCRIBED BY SUSHKOV, THESE PROJECTS FALL INTO "INDUSTRIAL COOPERATION" AREA AND WOULD INVOLVE PAY-BACK IN FORM OF FINISHED PRODUCTS (HE MENTIONS AUTOMOBILE PARTS AND MEN'S SUITS AS TWO ITEMS CURRENTLY BEING DISCUSSED) RATHER THAN RAW MATERIALS. SUSHKOV STRESSES THAT PLANTS BUILT UNDER ANY SUCH AGREEMENTS WOULD REMAIN THE PROPERTY OF THE USSR AND HE DOES NOT TOUCH ON ANY POSSIBLE ROLE FOR U.S. PARTNER IN MANAGING ENTERPRISES INVOLVED. HE NOTES, HOWEVER, THAT ITEMS PRODUCED IN SOVIET PLANT WOULD BE SOLD UNDER TRADEMARK OF U.S. PARTNER, A SITUATION WHICH WOULD IMPLY A CLOSE, ON-GOING RELATIONSHIP.

5. COMMENT: THE "NEW FORMS" OF ECONOMIC COOPERATION TO WHICH SUSHKOV REFERS WOULD APPEAR TO INVOLVE A POSSIBLE SOVIET VERSION OF "JOINT VENTURES," UNDER WHICH SOME MECHANISM WOULD BE FOUND LIMITED OFFICIAL USE

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TO ALLOW AN ON-GOING RELATIONSHIP BETWEEN U.S. PARTNER AND SOVIET ORGANIZATION(S) INVOLVED. AS SUCH, SUSHKOV'S REMARKS RESEMBLE THOSE OF STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY DEPUTY CHAIRMAN GVISHIANI DURING HIS DECEMBER 1975 MEETING WITH DEPUTY ASSISTANT SECRETARY DOWNEY (75 MOSCOW 18270). IN THIS CONNECTION, IT IS INTERESTING THAT IN HIS CONGRESS SPEECH, BREZHNEV STATED THAT IT WAS "PERHAPS TIME" TO MOVE BEYOND

TRADITIONAL FORM OF COMPENSATION DEALS INVOLVING
RAW MATERIALS AND SEMI-FINISHED GOODS TO "INCLUDE IN THEM
(I.E. COMPENSATION DEALS) PROCESSING INDUSTRY AS WELL,
TO FIND NEW APPROACHES TO PRODUCTION COOPERATION." IF, AS
APPEARS LIKELY, BREZHNEV WAS REFERRING TO SAME SORTS OF
ARRANGEMENTS DISCUSSED BY SUSHKOV, WE MAY SOON SEE
SOME MOVEMENT ON SOVIET SIDE TOWARD MORE FLEXIBLE FORMS OF
COOPERATION WITH FOREIGN FIRMS.
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